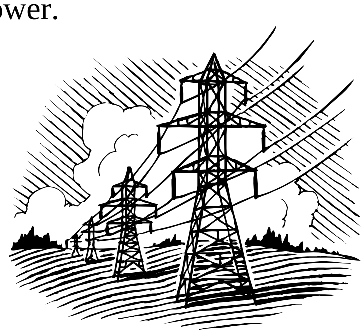
Clean Renewable Energy Bonds ("CREBs")

The Energy Policy Act of 2005 (P.L. 109-58) provides electric cooperatives and public power systems with the ability to issue "Clean Renewable Energy Bonds" ("CREBs"). The CREBs program is further described in Internal Revenue Service ("IRS") Notice 2005-98 ("Notice"). The Notice will eventually be followed by "temporary and proposed" regulations that invite public comment, but may be relied upon immediately. The "temporary and proposed" regulations may add detail to the program but will not alter the general terms of the Notice.

CREBs deliver an incentive comparable to the Production Tax Credit ("PTC") that is available to private developers and investor-owned utilities ("IOUs"). A CREB is a special type of bond, known as a "tax credit bond," that offers cooperatives the equivalent of an interest-free loan for financing qualified energy projects for a limited term. CREBs are, in part, modeled on a program called the "Qualified Zone Academy Bond" or "QZAB" program that provides tax credit bonds for school renovation and upgrades in certain qualified school districts.

Qualified Projects

Renewable energy projects that qualify for the PTC generally qualify for CREB financing. Specifically, these projects include wind, closed-loop biomass, open-loop biomass (including agricultural livestock waste), geothermal, solar, municipal solid waste (including landfill gas and trash combustion facilities), small irrigation power and hydropower.



Qualified Issuers

Entities qualified to issue CREBs include governmental bodies, Indian tribal governments, mutual or cooperative electric companies and clean energy bond lenders – namely, the National Rural Utilities Cooperative Finance Corporation ("CFC") and Cobank.

How CREBs Work

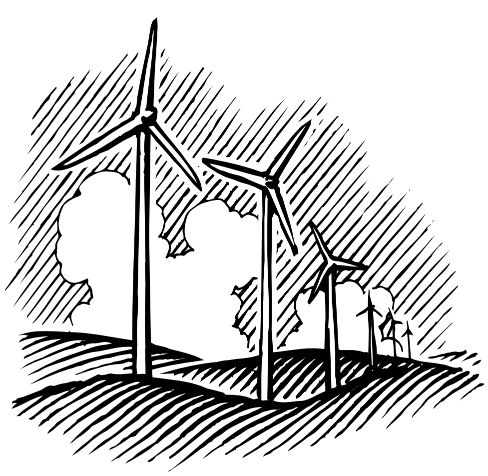
The electric cooperative or cooperative lender ("Issuer") would issue the CREBs and sell them to bondholders. With a conventional bond, the Issuer must pay interest to the bondholder. But with a tax credit bond, the Issuer does not make interest payments. The federal government provides a tax credit to the bondholder in lieu of the Issuer paying interest to the bondholder.

Treasury sets the rate of the credit on a daily basis, at a level that permits the issuance of the CREBs without discount and without interest cost to the Issuer. When the bondholder purchases the bond, the credit rate is locked in for the term of the bond. The credit accrues quarterly and is included in gross income of the bondholder (as if it were an interest payment on the bond). The bondholder takes the amount of the tax credit as a credit against its regular income tax liability and alternative minimum tax liability. Repayment of principal to the bondholder occurs on a "level annual repayment" basis, meaning equal payments each year of the term of the bond, commencing in the first year of issuance.

The value of the CREB to a bondholder for any year is equal to the credit, less the amount of tax payable on the credit. For example, if the credit amount is $100 and the bondholder is in the 35 percent tax bracket, the credit provides a $65 benefit to the bondholder.

Availability of CREBs
The Clean Renewable Energy Bond program will be available for two years, beginning January 1, 2006, and is subject to a cap of $800 million over two years to be shared between electric cooperative and government projects. The Secretary of Treasury ("the Secretary") will allocate the bonds on a project-by-project basis, prioritizing eligible projects from smallest to largest dollar amount of CREBs requested (with the smallest project first in the queue). The full amount of financing requested will be granted. All projects located at the same site and owned by the same Borrower are treated as a single project. No less than $300 million is reserved for electric cooperatives. The Secretary's timeline for granting the allocations is not provided in the Notice.

Application process
Notice 2005-98 solicits applications to Treasury for CREBs and sets a deadline of April 26, 2006 for applications to be submitted to the IRS. Applications must identify the Issuer and Borrower (the Borrower is the cooperative and the Issuer is either the cooperative or cooperative lender). The application must also describe the project in detail, including a certification by an independent, licensed engineer that the project is eligible and technically viable. Refer to the Notice for additional details of the application.



The Term of CREBs
The maximum term of the bonds is calculated through a formula that is dependent upon interest rates. Technically, the maximum maturity is the term which will result in the present value of the obligation to repay the final principal payment equaling 50 percent of the face amount of the CREB. So, as interest rates increase, the term of the bond decreases. At current interest rates, the maximum term of a CREB is about 15 years. The maximum term of the CREB will be published daily by the Bureau of Public Debt on its web site, http://www.publicdebt.treas.gov.

Credit Rate
The tax credit rate payable to the bondholder (in lieu of interest) will be published daily on the Bureau of Public Debt website mentioned above. Credit rates will be based upon yield on outstanding AA rates corporate bonds of a similar maturity, as estimated by Treasury the day before the CREB is sold. A feature that enhances the marketability of the CREB is "serialization" of the credit rate. In other words, each level annual repayment of principal will be structured as a separate bond paying a separate credit rate to a bondholder.

CREBs were intended by Congress to be issued without interest cost. Given how the credit rate will be set, however, they may sell at a discount depending on the market's perception of the underlying credit of the Borrower or Issuer or due to the small size of the program. Also, the need to begin repaying principal in the first year and transaction costs will result in some additional costs.

Spending the Proceeds of CREBs
CREB issuers must adhere to specific project timeframes for spending CREB proceeds. After issuing the CREBs for a qualified project, the Issuer must spend 95% of the proceeds within five years for that project. See IRS Notice 2005-98 for information on remedial actions that must be taken if the deadline is not met or if proceeds are not spent as intended for a qualified project. Such actions include and are not limited to repaying bondholders with unspent proceeds of the borrowing. Failure to take these actions could cause the bondholders not to receive any tax credits.

Proceeds of CREBs may not be invested above the yield of the CREBs and certain earnings from investment of CREB proceeds must be rebated to the Federal government. Refer to Notice 2005-98 for more information on such arbitrage requirements.

Board Action Needed for Reimbursement
An Issuer may use CREB proceeds to reimburse itself for project costs incurred up to 18 months *prior* to issuing the CREBs. To take advantage of this reimbursement, the actual Borrower (meaning, the cooperative itself, should CFC or Cobank issue the bonds on its behalf) must adopt an official intent to reimburse the expenditure *prior* to the payment of the expenditure. And, the Issuer must adopt an official intent to reimburse the expenditure within 60 days.

Parties Involved in Issuing CREBs
Electric cooperatives may issue the bonds, or have CFC or Cobank issue them on their behalf. Electric cooperatives that choose to issue CREBs independently should also be in contact with bond counsel. NRECA can recommend several bond counsel firms with experience regarding the CREBs.

Partnering with Private Entities
For tax-exempt electric cooperatives, sale to non-members of renewable power from a facility financed by a CREB would be treated in the same manner as any other income -- that is, the 85-15 rule would continue to apply. Examples of sales to non-members include sales of excess renewable capacity or the sale of renewable energy certificates. In any situation, the CREB-financed project must be owned by the cooperative, though it could be operated by another entity. A cooperative may partner with a private entity to finance a project but may only finance the portion it owns with the CREB. In this case, the proper election should be made so that the tax characteristics of the property are attributed to each individual co-owner, since a partnership is not an eligible Issuer under the statute.

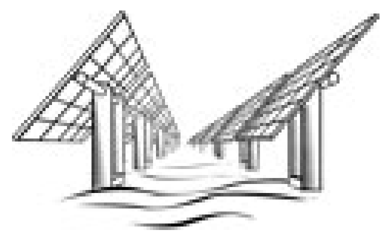
A cooperative may lease a CREB-financed project to a private entity provided that the lease meets applicable legal requirements and the cooperative is still deemed to be the owner for tax purposes. A coop could sell a CREB-financed facility to another coop or government body, but if the facility is sold to an entity that can not issue CREBs, such as an IOU or private developer, the coop would have to use the proceeds of the sale to repay all outstanding CREBs. Bond counsel should be consulted for further information on partnerships, leasing and other arrangements.

Marketing CREBs
Issuers may pool several projects together to create a bond issue of sufficient size to enhance its marketability, attract interest from the largest number of potential investors and reduce transaction costs. Cooperative lenders could market the bonds to institutional investors, such as pension funds, insurance companies, or Wall Street houses that may offer the bonds to some clients. The bonds could also be sold through mutual funds and to individual investors.

CREBs versus the Production Tax Credit
The Clean Renewable Energy Bond is a different type of financing tool than the PTC that is available to IOUs and private developers. The bond works as a financing tool. In contrast, the benefits from a PTC are received only after the facility is financed and electricity is generated. The value of the CREB relative to the PTC varies according to the project. The PTC provides a 10-year stream of tax credits for all of the above listed renewable generation facilities that qualify for CREBs. The rate provided by the PTC is 1.9 cents per kWh for wind, closed-loop biomass, geothermal and solar. The rate provided by the PTC is reduced to .9 cents per kWh for open-loop biomass (including agricultural livestock waste), municipal solid waste (including landfill gas), hydropower and small irrigation hydropower. The value of the CREB is *not* reduced for such projects, thus the Clean Energy Bond would be relatively more beneficial. A conservative estimate is that a CREB will save the cooperative a minimum of 30 percent versus an RUS loan, depending upon the project.

Other Resources
There are additional resources helpful to affording renewable generation that may be combined with CREBs. Renewable energy credits ("RECs") are renewable attributes of generation that are separated from the production of electricity and sold to other utilities that must meet renewable portfolio standard requirements, or to entities that want to demonstrate that they are contributing to clean energy production. For more information on RECs, visit the the Public Renewables Partnership website at http://www.repartners.org/webcast/4%20RECs%20Lieberman.pdf In addition, the USDA offers grants called "Section 9006 grants" (go to the USDA website at www.rurdev.usda.gov/rbs/farmbill/what_is.html). Finally, state incentives for renewable generation may be available.

Steps to Take Immediately
It is important for a cooperative to adopt an official intent to use the proceeds of the CREBs to finance its renewable project. This declaration would be made through a board resolution. The cooperative may reimburse itself for capital expenditures related to the construction of a project once the bonds are issued, but *only* if such a resolution is in place in advance *(see "Reimbursement" above).* Bond counsel can advise you as to the proper wording for the resolution, and NRECA can provide you with a sample resolution that would subject to review by your bond counsel.



For More Information
The U.S. Congress Joint Committee on Taxation has published a description of CREBs at the following link: http://www.house.gov/jct/x-60-05.pdf (JCX-60-5, July 28, 2005). Legislative text for Energy Policy Act of 2005 (P.L. 109-58) is available at http://thomas.loc.gov IRS notice 2005-98 is available at http://www.irs.gov/pub/irs-drop/n-05-98.pdf Consult the notice for additional detail not provided in this brochure, including additional application requirements, information reporting to the IRS, remedial actions in case of failure to spend bond proceeds as required and arbitrage.

NRECA Contacts
For more information on CREBs, contact Russ Wasson at 703-907-5802, or Susan Pettit at 703-907-5822.